
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 3

Review of San Diego Housing Commission Fiscal Year 2010 Budget

Budget Process Reform for Independent Agencies

City oversight of the San Diego Housing Commission (SDHC) Budget was strengthened this year through a City directive to provide budget information consistent with all other City departments; implementation of a new technical budget review process conducted by the City's Financial Management Department; and incorporation of the SDHC Budget into the City's regular budget hearing process and for the first time resulting in a two-step review process at the legislative level. These budget reforms are vital to ensuring a robust review of the budgets of the City's independent agencies. We recommend that further improvements be made to the process such as advancing budget reviews by the agency boards to align more closely with the City's budget review and hearing process.

Overview

SDHC staff presented a preliminary overview of the agency's Proposed Fiscal Year 2010 Budget at the May 7, 2009 meeting of the Housing Authority (HA). At that time, the HA offered comments to agency staff, some of which are highlighted throughout this report to provide context for the June 16, 2009 discussion.

The Housing Commission recommended adoption of the Fiscal Year 2010 Proposed Budget on May 15, 2009.

The Fiscal Year 2010 Proposed Budget is \$279.4 million, a total decrease of \$21.4 million, or 7%, from the current revised FY 2009 budget. As in previous years, it is expected that the Housing Commission will propose amendments to the budget throughout the fiscal year to adjust for the receipt of additional revenues and to authorize additional expenditures.

The current FY 2009 budget has increased approximately \$35.9 million from the original/adopted budget, from \$265.0 million to \$300.9 million. Major changes, as outlined in the SDHC Fall Revision, consist of \$9.9 million in carry-over funds, \$16.1 million in new funds added including the Neighborhood Stabilization Program and other programs and loan payoffs in FY 2009. Additionally the HC recently received funds from Housing and Urban Development (HUD) for lead removal in the amount of \$7 million.

The table below compares the Fiscal Year 2010 Budget to the previously approved Fiscal Year 2008 and 2009 Budgets and illustrates the changes from year to year.

FISCAL YEAR 2010 PROPOSED BUDGET SUMMARY								
	FY 08	% of Total	FY 09	% of Total	FY10 Proposed	% of Total	Change from FY09 to FY10	% Change from FY09 to FY10
Revenue								
Restricted	\$206.4	76%	\$240.3	80%	\$242.1	76%	\$1.9	0.77%
Unrestricted	\$66.5	24%	\$60.6	20%	\$37.3	24%	(\$23.3)	-38.44%
TOTAL REVENUE	\$272.9	100%	\$300.9	100%	\$279.4	100%	(\$21.4)	-7.13%
Expenses								
Salaries and Benefits	\$17.8	7%	\$18.7	6%	\$20.6	7%	\$1.9	10.30%
Services and Supplies	\$9.5	3%	\$10.2	3%	\$10.6	3%	\$0.4	3.63%
Housing Programs	\$217.7	80%	\$236.5	79%	\$217.6	80%	(\$19.0)	-8.03%
Reserves	\$27.9	10%	\$35.5	12%	\$30.7	10%	(\$4.8)	-13.40%
TOTAL EXPENSES	\$272.9	100%	\$300.9	100%	\$279.4	100%	(\$21.4)	-7.13%

Fiscal/Policy Discussion

Significant Budget Adjustments

The Housing Commission operates on an activity-based budget, within four main activity groups: Housing Services, Housing Development and Finance, Operations, and Reserves. These activity groups and associated expenditures are supported by a variety of restricted and unrestricted revenue sources. The discussion below highlights some of the most significant revenue and expenditure changes from FY 2009 to FY 2010.

Revenues

Most notable revenue adjustments in FY 2010 include a \$6.7 million decrease to Housing Trust Fund Linkage program revenue and a \$7.4 million reduction in Inclusionary Housing Fund revenue, which contribute to the decrease in Affordable Housing Funds, budgeted to decrease approximately \$14.5 million in FY 2010.

The decrease in the Housing Trust Fund Linkage program is due to \$4.4 million less in carryover from FY 2009, \$1.1 million of new fees budgeted in FY 2009 but not expected in FY 2010, in addition to \$1.2 million less fees expected in FY 2010. The reduction to the Inclusionary Housing Fund is the result of a decrease of \$6.9 million in FY 2009 carryover and a reduction of \$500,000 in new fees.

Additionally, the FY 2010 budget includes a decrease of \$6.5 million of revenue in the HOME Program. This reduction is primarily due to a net reduction of \$4.3 million in new funds and a reduction of \$2.2 million in revenue from projects in FY 2009 that will result in less carryover from FY 2009 to FY 2010.

Expenditures

I. Salaries and Benefits

An increase of \$1.9 million, or 10%, has been budgeted in FY 2010 in Salaries and Benefits. The change from FY 2009 to FY 2010 is the result of:

- \$369,493 - Recalculation of salaries including FY 2010 anticipated movement along the seven step pay plan and merit increases (FY 2010 Budget for merit increases is \$56,517)
- \$367,497 - Addition of seven positions
- \$50,842 - Reclassification of eight positions
- \$10,717 - Salary Reserves including a contingency for salary increases and additional bonuses (FY 2010 Budget for bonuses is \$43,005)
- (\$3,813) - Vacancy Factor of 0.5%
- \$406,408 - Change in employee benefits
- \$723,793 - Reserves for the potential changes due to the classification and compensation study (Staff anticipates completion in early fall 2009 and has noted that the entire sum may not be necessary, as the study may result in recommendations for salary increases as well as decreases)

Included in the addition of seven positions is the conversion of six temporary positions to permanent status for FY 2010. The issue of utilizing temporary employees on an ongoing basis was first raised at the April 21, 2009 meeting of the Housing Authority by Councilmember Emerald and was noted again at the May 7, 2009 budget hearing.

At the May 7, 2009 meeting of the Housing Authority, Councilmember DeMaio expressed concern regarding personnel increases. Additional information outlining the significant differences between FY 2009 and FY 2010 spending was requested, as well as information on potential savings from the following options:

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|---|--------------------------|
| • Six percent decrease in base compensation | (\$489,000) ¹ |
| • Elimination of the 5% compensation factor | (\$909,000) ² |
| • Elimination of merit salary increases and bonuses | (\$262,000) ³ |

¹ Information provided by the City's Financial Management Department

² Ibid.

³ Ibid.

At this meeting, Councilmember DeMaio requested that the IBA provide possible alternatives for expending these funds on other Housing Programs or Neighborhood Code Compliance. While \$718,000 is included in the FY 2010 Housing Commission budget to support various City activities, other funding options could include additional proactive rental housing inspectors (\$96,000 to \$107,000 per inspector) or the remainder of costs for the Homeless Services Coordinator (\$92,000).

II. Services and Supplies

Most notable among the changes in the Services and Supplies category is an increase of \$910,000, or 48%, in office rents due to an increase in the square footage costs. The budget indicates that this increase will fund the cost of operating the Smart Corner facility and is the result of the economic downturn and the inability to rent space on the first and second floors of the building. Housing Commission staff has indicated that they plan to actively pursue a variety of strategies to utilize the space.

III. Housing Programs

The most significant expenditure adjustment in FY 2010 is an \$18.9 million decrease in Housing Programs. This expenditure adjustment is largely attributable to a \$22.7 million decrease in Loans and Grants, which consists of \$16 million less funding anticipated in FY 2010 and \$6.7 million less carryover anticipated from FY 2009. These decreases are partially offset by \$1 million in awards in HOME, Cal State Housing Trust Fund, Shelter Plus Care and Property Management.

Additionally, there is a \$6.2 million increase in Site Acquisition and Rental Housing Development for the development of affordable housing units. This net increase is the result of additions, reductions and transfers in Rental Housing Development and expenditures at the Smart Corner Office building.

In Rental Housing development, an increase of \$10 million is the result of additional public housing funds for acquisition and development, the addition of \$2.1 million in American Recovery and Re-investment Act (federal stimulus) funds, offset with a net transfer of \$772,000 of fund from loans and grants to acquisition and development, as well as a reduction of \$8.6 million from the FY 2009 obligation of funds for the acquisition of Chollas Creek.

Approximately \$1.7 million will be expended for tenant improvements and to establish the Economic Development Academy in the Smart Corner Office building, which will provide training and services to SDHC clients.

IV. Program, Contingency & Unobligated Reserves

In prior years, our office has advocated for the best practice of maintaining at least a 5% level of Unobligated Reserves. Although overall reserves are budgeted at approximately \$4.6 million less in FY 2010, Unobligated Reserves have increased by over \$6 million to \$12.5 million, or 4.5% of the total proposed budget. This is an increase over the 1.6% of

the FY 2009 Adopted Budget. The IBA would like to note that this is a significant positive improvement.

The budget document summary notes that insufficient revenues paralleled with continued program growth have resulted in less funding for operating expenses in FY 2010 and it will be necessary “to utilize reserves to balance administrative expenses with available revenues.” As a result, the budget document indicates a \$4.7 million transfer from Unobligated Reserves to fund administrative expenses. Prior to this transfer, the total increase in Unobligated Reserves was approximately \$11 million.

Housing Commission staff has indicated that the need to use reserves is related to the economic downturn which has precipitated a reduction in revenue to the HOME Program, Inclusionary Housing fees and revenue to the Housing Trust Fund, which have traditionally been significant sources of eligible revenue. In addition, in past years the SDHC utilized some of its CDBG allocation to cover administrative expenses, which is no longer the case in FY 2010.

Reinvestment Task Force

In FY 2010 the activities of the Reinvestment Task Force will be mutually supported by the Housing Commission and the County of San Diego. This reorganization was raised at the May 7, 2009 budget hearing, at which time Councilmember Gloria asked about the decision to move the Task Force under the purview of the Commission’s Board and Executive Functions section. Housing Commission staff replied that the City and County will be sharing the costs. Most recently, Housing Commission staff confirmed that the County has pledged \$50,000 and the Housing Commission has budgeted \$61,344 for a total cost of \$111,344 in FY 2010, although ongoing discussion regarding sharing the costs between the two entities continues at this time.

Status of Long-term Funding Plan for Homeless Winter Shelter

Housing Commission staff has confirmed that the Proposed FY 2010 Budget includes \$380,000 for the homeless winter shelter, which has been budgeted in the Special Purpose Housing activity of the budget. At the May 7, 2009 Housing Authority budget hearing, Councilmember Gloria requested additional information showing the breakdown for the FY 2010 plan to fund the shelter. At that time, Housing Commission staff indicated they did not know where the remaining funds to pay for this year’s shelter are coming from, however in a memo from SDHC President & CEO Rick Gentry, dated May 12th, 2009, these funds were identified as following:

- Total cost for the FY 2010 winter shelter is estimated at \$680,000
 - SDHC has budgeted \$380,000
 - City will allocate \$195,000 in Emergency Shelter Grant funds and \$105,000 in FY 2010 CDBG funds to the project

A May 20, 2009 memo response from Financial Management also addressed the funding for the shelter and confirmed these figures.

Conclusion

The IBA supports the approval of the SDHC Fiscal Year 2010 Budget, along with the provision that delegates to the Housing Commission the authority to amend up to \$250,000 of the FY 2010 Budget. This action is consistent with prior years. It is also important to note that under the updated Real Estate Acquisition Policy approved by the Housing Authority on March 24, 2009, the President & CEO and the Board of Commissioners has the authority to acquire properties for the purpose of providing additional affordable housing.

The IBA expresses reservations regarding setting aside the entire 5%, or \$700,000, compensation factor at this time pending the results of the anticipated compensation study, as the completion date and results are uncertain. We recommend this issue return to the Housing Authority for further approvals upon completion of the study and this funding be placed in the reserves until that time.

As noted earlier, the IBA recommends that further improvements be made to advancing budget reviews by agency boards to align more closely with the City's budget review and hearing process. Housing Commission staff has indicated future budgets will continue evolving to conform to the City's budget timeline.

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